



# Public Service Commission of Wisconsin

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Public Service Commission of Wisconsin  
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November 2, 2022

Mr. Travis Signer  
Gratiot Municipal Water Utility  
P.O. Box 189  
Gratiot, WI 53541

Re: Application of the Village of Gratiot, Lafayette County, as a 2340-WR-101  
Water Public Utility, for Authority to Adjust Water Rates

Dear Mr. Signer:

Public Service Commission (Commission) staff has analyzed the Gratiot Municipal Water Utility's (Utility) application for a water rate increase. The application was received on July 20, 2022. The attached proposal contains Commission staff's proposed 2022 test year revenue requirement exhibit (Exhibit) and will serve as the basis for the cost of service study. Alex Hanna, Rate Analyst, will soon develop the cost of service study and a proposed rate design. A copy of that exhibit will be filed in the [Electronic Records Filing System](#) (ERF) separately upon completion. Commission staff will submit both proposals at the public hearing, which will be scheduled at a later date.

In its application, the Utility stated that it filed for the rate increase to fund operating expenses and routine repairs and maintenance, while still providing savings for future repairs and unexpected projects.

The Utility's last Conventional Rate Case (CRC) was in 1996. Although the Utility has minimal long-term debt, the Utility should monitor future earnings and overall financial stability to maintain good financial health. The Utility used the Simplified Rate Case (SRC) process three times since 2008 to obtain regular inflationary rate increases, which has helped to provide some financial stability. However, Commission staff recommends that the Utility apply for a CRC more frequently in the future to ensure that rates are adequate for future projects and its long-term financial stability. Commission staff also recommends that the Utility continue to use the SRC process as it has in previous years.

The Utility requested a return on net investment rate base of 3.25 percent and stated that it hoped to keep rate reasonable for customers and limit the rate increase to 30 percent. The Commission calculates the benchmark rate of return weekly based on a three-month rolling average of municipal bond rates and determines a floor annually. The benchmark rate of return at the time Commission staff finalized the revenue requirement for this case was 6.30 percent. Commission staff estimated the Utility's capital employed in providing public utility service associated with the net investment rate base to be 94.33 percent municipal equity and 5.67 percent long-term

debt. The Utility's composite cost of debt is 2.94 percent. The benchmark return on rate base of 6.30 percent will provide a 6.50 percent return on municipal earning equity and 37.74 times interest coverage. Commission staff considers that the benchmark return on rate base is necessary to provide the Utility with sufficient earnings to help address future capital and unforeseen operating needs and will also maintain confidence in the Utility's financial integrity without resulting in customer rates that are excessive.

Schedule 4 of the Exhibit describes Commission staff's proposed adjustments to the revenue requirement that was requested in the Utility's rate application. During the review of the rate application, Commission staff discovered several issues that resulted in additional analysis and require the Utility to take the following actions:

- The Utility recorded \$125,564 as additions to Utility-Financed Plant for 2022 in the application. The Utility funded the plant additions by grant funds received in 2021 and should instead record them as Contributed Plant. The grant funds were properly recorded on the 2021 PSC Annual Report. Commission staff made an adjustment to reclassify the \$125,564 as Contributed Plant additions in the revenue requirement. The Utility should record the additions as Contributed Plant on the 2022 PSC Annual Report.
- Commission staff discovered that the Utility has been billing customers usage rates that are not in accordance with Schedule Mg-1 of its tariff during its review of sales revenues. The rates billed were higher than the authorized rates, and the Utility has been using these incorrect rates since September 1, 2018. The Utility should bill the affected customers using the correct usage rates as described on Schedule Mg-1. Commission staff also recommends that the Utility correct this issue in its billing system and issue refunds to all affected customers.
- Commission staff discovered that the Utility has been billing two Public Authority customers using rates that are not in accordance with Schedule Mg-1 of its tariff. The Utility was using an unauthorized flat rate to bill these customers. The Utility should bill these customers using the correct meter service and usage rates as described on Schedule Mg-1. Commission staff also recommends that the Utility correct this issue in its billing system and issue refunds to the affected customers. The Utility should work with Consumer Affairs staff and provide proof of the refunds within 90 days of the date of this letter.

Schedule 5 of the Exhibit is the list of depreciation rates that is the basis of Commission staff's estimated depreciation expense for the test year. Some depreciation rates may be different than those previously authorized for the Utility. Commission staff recommends that the Commission certify these depreciation rates for use by the Utility effective January 1, 2022. Please note that the general service and public fire protection rates are typically effective within 90 days of the Final Decision.

Mr. Travis Signer  
Docket 2340-WR-101  
Page 3

The Commission staff Exhibit is intended to provide the Commission with Commission staff's analysis and is not a final decision. After reviewing, please confirm the Utility is in agreement with staff's proposed revenue requirement as set forth in the Exhibit within five business days of the date of this letter. The Utility should file its confirmation on [ERF](#) and identify the document type in ERF as "Exhibit Offered." If the Utility is not in agreement with any individual component(s) of the revenue requirement, please provide detail in the Utility's reply. Please note that this is the Utility's primary opportunity to address any concerns or changes to Commission staff's proposed revenue requirement. The Utility may present its own case and may submit any additional information it believes to be pertinent to substantiate its position within five business days of the date of this letter. If Commission staff does not receive a response within that time, it will assume the Utility is in agreement with the staff proposal, and the Commission staff Rate Analyst will use the revenue requirement to develop a rate proposal.

In order to receive notification of official correspondence (i.e. data requests, notices, final decisions, etc.), individuals must subscribe to the Utility ID or PSC Docket. To subscribe, go to the Commission's [ERF](#) system. For help subscribing, go to [Subscribing to Dockets](#).

If you have any questions regarding the above, please contact me. If you have any questions regarding the status of your rate case, please contact Alex Hanna at (608) 267-2336 or by e-mail at [Alex.Hanna@wisconsin.gov](mailto:Alex.Hanna@wisconsin.gov).

Sincerely,



Troy Gazza  
Public Utility Auditor  
Public Service Commission of Wisconsin  
Division of Water Utility Regulation and Analysis  
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TKG:sle:krl DL:01911687

**Ex.-PSC-Revenue Requirement**

**Gratiot Municipal Water Utility**

Estimated 2022 Operating Income Statement

Net Investment Rate Base

and 2022 Estimated Revenue Requirement

**Gratiot Municipal Water Utility**  
**2340-WR-101**  
**Estimated Operating Revenues**  
**for the 2022 Test Year**

	Utility Estimates Test Year 2022	PSC Staff Proposed Adjustments	PSC Staff Estimates Test Year 2022
<b>Unmetered Sales to General Customers</b>	<b>\$ 1,440</b>	<b>\$ (1,440)</b>	<b>\$ 0</b>
<b>Metered Sales to General Customers:</b>			
Residential	18,580	0	18,580
Multi-family Residential	0	0	0
Commercial	3,806	0	3,806
Industrial	0	0	0
Public Authority	2,791	0	2,791
Irrigation	0	0	0
<b>Total Metered Sales</b>	<b>\$ 26,618</b>	<b>\$ (1,440)</b>	<b>\$ 25,177</b>
Private Fire Protection	0	0	0
Public Fire Protection	17,826	0	17,826
Other Water Sales	0	0	0
Sales for Resale	0	0	0
Interdepartmental	0	0	0
<b>Total Water Sales</b>	<b>\$ 44,444</b>	<b>\$ (1,440)</b>	<b>\$ 43,003</b>
Forfeited Discounts	100	0	100
Rents of Water Property	0	0	0
Interdepartmental Rents	0	0	0
Other Water Revenues	410	0	410
<b>Total Operating Revenues</b>	<b>\$ <u>44,954</u></b>	<b>\$ <u>(1,440)</u></b>	<b>\$ <u>43,513</u></b>

**Gratiot Municipal Water Utility**  
**2340-WR-101**  
**Comparative Income Statement, Net Investment Rate Base, and PSC Adjustments**

	2019	2020	2021	Utility Estimates Test Year 2022	PSC Staff Proposed Adjustments	PSC Staff Estimates Test Year 2022
<b>Net Operating Income Statement:</b>						
<b>Total Operating Revenues:</b>	\$ <u>43,278</u>	\$ <u>43,402</u>	\$ <u>43,763</u>	\$ <u>44,954</u>	\$ <u>(1,441)</u>	\$ <u>43,513</u>
Operating Expenses:						
Plant Operations & Maintenance	19,271	23,449	23,937	22,230	3,726	25,956
General Operating Expenses	3,599	5,598	5,147	6,699	(322)	6,377
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Operation & Maintenance Expenses	\$ 22,870	\$ 29,047	\$ 29,084	\$ 28,929	\$ 3,404	\$ 32,333
Depreciation	10,319	10,369	10,401	10,792	(1,041)	9,751
Taxes	10,413	10,517	9,346	8,220	0	8,220
<b>Total Operating Expenses</b>	\$ <u>43,602</u>	\$ <u>49,933</u>	\$ <u>48,831</u>	\$ <u>47,941</u>	\$ <u>2,363</u>	\$ <u>50,304</u>
<b>Net Operating Income (Loss)</b>	\$ <u><u>(324)</u></u>	\$ <u><u>(6,531)</u></u>	\$ <u><u>(5,068)</u></u>	\$ <u><u>(2,987)</u></u>	\$ <u><u>(3,804)</u></u>	\$ <u><u>(6,791)</u></u>
 <b>Net Investment Rate Base:</b>				Utility Estimates Test Year 2022	PSC Staff Proposed Adjustments	PSC Staff Estimates Test Year 2022
Utility Plant in Service				\$ 509,344	\$ (67,850)	\$ 441,494
Less:						
Accumulated Provision for Depreciation				<u>163,150</u>	<u>(1,366)</u>	<u>161,784</u>
<b>Net Plant in Service</b>				\$ <b>346,194</b>	\$ <b>(66,484)</b>	\$ <b>279,710</b>
Add: Materials and Supplies				7,766	0	7,766
Less: Regulatory Liability - pre-2003						
Depreciation on Contributed Plant				<u>84</u>	<u>(45)</u>	<u>39</u>
<b>Net Investment Rate Base</b>				\$ <u><u>353,876</u></u>	\$ <u><u>(66,439)</u></u>	\$ <u><u>287,437</u></u>
 <b>Rate of Return</b>				<b>N/A</b>		<b>N/A</b>

**Gratiot Municipal Water Utility**  
**2340-WR-101**  
**Estimated Income Statement and Revenue Requirement**  
**for the 2022 Test Year**  
**to Yield a 6.30% Return on the Net Investment Rate Base**

	Present Rates	Increase	After Rate Increase
<b>Total Operating Revenues:</b>	\$ 43,513	\$ 24,900	\$ 68,413
Operating Expenses:			
Plant Operations & Maintenance	25,956		25,956
General Operating Expenses	<u>6,377</u>		<u>6,377</u>
Total Operation & Maintenance Expenses	\$ 32,333		\$ 32,333
Depreciation	9,751		9,751
Taxes	8,220		8,220
<b>Total Operating Expenses</b>	<b>\$ 50,304</b>		<b>\$ 50,304</b>
Net Operating Income (Loss)	<b>\$ (6,791)</b>		<b>\$ 18,109</b>
 <b>Rate of Return</b>	 <u><u>N/A</u></u>		 <u><u>6.30%</u></u>
 <b>Net Investment Rate Base:</b>			
Utility Plant in Service	\$ 441,494		\$ 441,494
Less:			
Accumulated Provision for Depreciation	<u>161,784</u>		<u>161,784</u>
<b>Net Plant in Service</b>	<b>\$ 279,710</b>		<b>\$ 279,710</b>
Add: Materials and Supplies	7,766		7,766
Less: Regulatory Liability - pre-2003 Depreciation on Contributed Plant	<u>39</u>		<u>39</u>
<b>Net Investment Rate Base</b>	<b>\$ 287,437</b>		<b>\$ 287,437</b>

**Gratiot Municipal Water Utility**  
**2340-WR-101**  
**Schedule of Staff Adjustments**

Schedule 4

Page 1 of 2

		<b>Adjustments at 3.25% ROR</b>
<b>Utility Requested Rate Increase</b>		\$ 14,488
		33%
<u>Adjustments to Revenues</u>		
Acct. 460 - Unmetered Sales		
Utility Estimate	\$ 1,440	
Staff Estimate	\$ -	
Adjustment		\$ 1,440
Estimate revised to remove revenues that were incorrectly recorded in this account.		
<u>Adjustments to Expenses</u>		
Acct. 640 - Supplies and Expenses		
Utility Estimate	\$ 1,691	
Staff Estimate	\$ 1,985	
Adjustment		\$ 294
Estimate revised to reflect a four year average,		
Acct. 650 - Repairs of Water Plant		
Utility Estimate	\$ 2,018	
Staff Estimate	\$ 5,450	
Adjustment		\$ 3,432
Estimate revised to reflect a 20 year normalization of water tower painting expenses and a four year average of routine expenses.		
Acct. 682 - Outside Services Employed		
Utility Estimate	\$ 2,940	
Staff Estimate	\$ 2,277	
Adjustment		\$ (663)
Estimate revised to reclassify consultant costs for the rate case.		
Acct. 688 - Regulatory Commission Expenses		
Utility Estimate	\$ -	
Staff Estimate	\$ 341	
Adjustment		\$ 341
Estimate revised to include a 3 yr. normalization of consultant and PSC costs associated with the rate case.		
Depreciation Expense		
Utility Estimate	\$ 10,792	
Staff Estimate	\$ 9,751	
Adjustment		\$ (1,041)
Estimate revised due to plant additions being moved from Utility Financed Plant to Contributed Plant.		



**Gratiot Municipal Water Utility**  
**2340-WR-101**  
**Schedule of Staff Adjustments**

**Schedule 4**

**Page 2 of 2**

Adjustments to Net Investment Rate Base

Utility Estimate	\$ 353,876
Staff Estimate	\$ 287,437
Difference	<u>\$ (66,439)</u>

Estimate revised due to plant additions being moved from Utility  
Financed Plant to Contributed Plant. Also, to include the yearly  
amortization of regulatory liability.

Adjustment to Return on Ratebase based on requested 3.25% ROR	\$ (2,159)
Increase to ROR to 6.30%	\$ 8,767
Other miscellaneous up and down adjustments	\$ 1

**Staff Estimated Rate Increase**

<b>\$ 24,900</b>
<b>58%</b>

**Gratiot Municipal Water Utility**  
**2340-WR-101**  
**Schedule of Water Depreciation Rates**  
**Effective January 1, 2022**

Account Number	Account Title	Depreciation Rate
	<b>SOURCE OF SUPPLY PLANT</b>	
314	Wells and Springs	2.90%
	<b>PUMPING PLANT</b>	
321	Structures and Improvements	3.20%
325	Electric Pumping Equipment	4.40%
	<b>WATER TREATMENT PLANT</b>	
334	Other Water Treatment Equipment	6.00%
	<b>TRANSMISSION &amp; DISTRIBUTION PLANT</b>	
342	Distribution Reservoirs and Standpipes	1.90%
343	Transmission and Distribution Mains	1.30%
345	Services	2.90%
346	Meters	5.50%
348	Hydrants	2.20%
349	Other Transmission and Distribution Plant	5.00%
	<b>GENERAL PLANT</b>	
398	Miscellaneous Equipment	5.80%